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Copied to:

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Executive Secretary

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THE WHITE HOUSE
WASHINGTON

Executive Registry

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CABINET AFFAIRS STAFFING MEMORANDUM

DATE: 1-31-83 NUMBER: 077765CA DUE BY: _____

SUBJECT: Joint meeting of the Cabinet Council on Commerce and Trade and the
Trade Policy Committee - February 2, 1983 at 3:00 p.m. in room 194 OEOB

	ACTION	FYI		ACTION	FYI
ALL CABINET MEMBERS	<input type="checkbox"/>	<input type="checkbox"/>	Baker	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Vice President	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Deaver	<input type="checkbox"/>	<input type="checkbox"/>
State	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Clark	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Treasury	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Darman (For WH Staffing)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Defense	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	Harper	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Attorney General	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Jenkins	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Interior	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Agriculture	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Commerce	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
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HHS	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
HUD	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Transportation	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
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Education	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Counsellor	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
CIA	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
UN	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
USTR	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
CEA	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CCCT/Gunn	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CEQ	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CCEA/Porter	<input type="checkbox"/>	<input type="checkbox"/>
OSTP	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CCFA/Boggs	<input type="checkbox"/>	<input type="checkbox"/>
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	<input type="checkbox"/>	<input type="checkbox"/>	CCMA/Bledsoe	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	CCNRE/Boggs	<input type="checkbox"/>	<input type="checkbox"/>

REMARKS: The Cabinet Council on Commerce and Trade will meet jointly with the Trade Policy Committee on February 2, 1983 at 3:00 p.m. in room 194 of the Old Executive Office Building. Agenda and papers are attached.

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ATTACHMENTS

RETURN TO:

☐ Craig L. Fuller
Assistant to the President
for Cabinet Affairs
456-2823

☒ Becky Norton Dunlop
Director, Office of
Cabinet Affairs
456-2800

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Joint Meeting

CABINET COUNCIL ON COMMERCE AND TRADE

TRADE POLICY COMMITTEE

February 2, 1983

3:00 p.m.

Room 194 OEOB

AGENDA

1. U.S. - Japanese High Technology (CM#345)
2. Japanese Trade Issues (CM#269)
3. Voluntary Restraint Agreement on Automobiles
4. Houdaille Petition

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U.S. TRADE POLICY VIS-A-VIS JAPAN

CM# 269

I. U.S. OBJECTIVES

The overarching goals of U.S. trade policy are to further the development of the U.S. economy and the economic well-being of Americans, and to maintain and strengthen the international free trading system. To realize these goals in its trade relationships with Japan, U.S. trade policy has five general trade policy objectives:

- A. Obtaining overall access for U.S. participation in the Japanese economy in goods, services, and investment similar to that which Japan enjoys in the U.S. economy.
 - B. Ensuring trade composition and volume which reflect U.S. competitiveness.
 - C. Ensuring fair competition between U.S. and Japanese firms in U.S., Japanese, and third country markets and eliminating distortive or disruptive effects that may arise from Japanese Government industrial policies or corporate practices.
 - D. Avoiding protectionist measures.
 - E. Inducing Japanese leadership in free trade commensurate with Japanese economic strength and Japan's stake in the system.
- A. Obtaining access for U.S. participation in the Japanese economy in goods, services, and investment similar to that which Japan enjoys in the U.S. economy.

Our ultimate and fundamental trade policy goal has been to gain access to the Japanese economy for American goods, services, and investment on an equivalent basis to the access which the Japanese enjoy in the U.S. economy.

- o Japanese firms have virtually complete access to the U.S. market.
- o To the extent that the Japanese market (which is the second largest in the world for industrial and consumer products) is reserved for Japanese firms, while Japanese firms are free to compete in the U.S. market, our companies will be at a significant competitive disadvantage.

Our firms will be disadvantaged not only in terms of lost sales now, but also by being denied the continuing cost economies that result from participating in two high-volume markets.

CLASSIFIED BY *James M. Murphy* 1-26-83

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As a general rule we seek national treatment provided that such treatment gives U.S. firms access to the Japanese market. We must seek better than national treatment when such treatment would mean being denied access to the Japanese market.

B. Ensuring trade composition and volume which reflect U.S. competitiveness.

The U.S. seeks access to the Japanese market for all of its products.

- o With some exceptions, however, our access has been more difficult to achieve for manufactured goods and value-added agricultural products.

Unlike in other industrialized countries, imports complement rather than compete with domestic products in the Japanese market. Imports sold in Japan tend disproportionately to be of products that are not produced there.

The proportion of manufactured goods among Japan's total imports is low because of government policies and corporate practices.

- o These policies/practices have the effect of excluding foreign competitors from, or imposing significant handicaps on, foreign participation in the Japanese market.

The removal of impediments to U.S. manufactured exports to Japan is a high priority because our international competitiveness in strategic sectors, such as high technology, depends on access to, and participation in, major world markets.

C. Ensuring fair competition between U.S. and Japanese firms in U.S., Japanese, and third country markets and eliminating distortive or disruptive effects that may arise from Japanese Government industrial policies or corporate practices.

Japanese industrial policies, trade policies, and corporate practices may give Japanese firms an advantage, not only in the Japanese home market, but also in the U.S. and third country markets.

- o It is essential to ensure that Japanese competition is in accordance with international and national rules of fair play and is not disruptive in the U.S. marketplace.

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- o Practices of concern include import and export cartels (formal or informal), joint R&D, and industry targeting.

We need to learn more about these practices, which we consider unfair or unjustifiable, their competitive effects, and how to counter them when they injure U.S. firms.

D. Avoiding protectionist measures.

The U.S. must continue to maintain its commitment to free trade even though there are strong and ever-increasing domestic pressures for protectionism.

We must convince Japan that these protectionist pressures are real and building.

We must convince the Japanese of the necessity to take actions that will counteract these domestic pressures. Failure could undermine the world trading system. If the U.S. begins to adopt protectionist actions, it is very likely that other countries will rapidly follow.

- o Japanese actions must translate into significantly increased market access to Japan for U.S. firms, especially in sectors where we are strongly competitive.
- o Japanese actions must, however, represent a commitment to real trade liberalization and not simply a response to dampen American protectionist pressures.

E. Inducing Japanese leadership in free trade commensurate with Japanese economic strength and Japan's stake in the system.

As the second largest industrial power, Japan must shoulder a substantial leadership role in conducting and promoting free trade.

- o No country benefits more from free trade than Japan.
- o No country has depended more heavily on access to foreign markets for its growth and development.

Japan must become an active leader in maintaining and expanding the scope of free trade--at home and internationally.

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II. RATIONALE FOR U.S. OBJECTIVES

While the virtue of reducing foreign trade barriers is universally applauded, the rationale for such reductions varies greatly. To guide us in developing a strategy to reach our objective, we need to sort out the valid reasons from the invalid ones for seeking an opening of the Japanese economy.

First let us put aside the fallacious reasons for seeking an opening up of Japan:

- o We are not seeking a reduction in trade barriers because we are without sin, or to make them the same as we are. Exports to the United States run into barriers too (autos, steel, textiles and apparel, meat, dairy, and sugar). The international trade system accepts cultural and institutional diversity.
- o We do not seek an opening of the Japanese capital market in the hope that it will promptly strengthen the yen. A particular yen rate is not a U.S. policy objective. In fact, we recognize that opening of the Japanese capital market is likely to weaken the yen at first.
- o We are not trying to reduce Japanese trade barriers simply to improve the U.S. trade balance. Bilateral trade balances are not a U.S. policy objective. Moreover, an increase in Japanese imports following a reduction of trade barriers is bound to result in an increase in Japanese exports, some to the United States. The effect on our bilateral trade balance is indeterminate.

The fundamental reasons we want to open up Japan's goods, services, and financial markets include the following:

- o Opening Japanese markets will produce the classic gains from trade. With the reduction of Japanese trade and service barriers, the United States can benefit from the operation of comparative advantage (through exporting and importing). With a reduction in Japanese trade barriers, Japanese and American economies will shift resources in line with comparative advantage to those products each can make relatively more efficiently.
- o Opening the Japanese economy will permit a better allocation of resources. For example, opening of the Japanese capital markets will encourage the most efficient use of capital, which may be through greater outflows (the high Japanese savings rate may result in structural capital outflows) or through inflows (if foreigners want more yen assets).

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- o Reducing certain Japanese trade barriers will improve the competitive position of some U.S. exporters. For certain U.S. industries, access to the Japanese market can be important (a) to allow them to capture economies of scale by expanding sales to Japan, (b) to prevent their Japanese competitors from having a protected base from which to export (i.e., a protected market can reduce risk, increase volume, and generate monopoly profits through higher pricing), and (c) to keep informed of competitors' activities.
- o Reducing Japanese trade barriers will address the equity concerns of U.S. businessmen, Congress, and the public. While it is difficult to measure precisely on an aggregate basis how protectionist Japan is, those who try to export to Japan generally agree it is harder to sell in Japan than in most developed countries, other than France or Italy. Anecdotal evidence abounds. The pervasive feeling of lack of equity undermines necessary domestic support in the United States for an open trading system.
- o Reducing Japanese trade barriers is necessary to maintain an open global trading system. Keeping an open domestic market is generally in a country's own overall economic interest (although a closed market can benefit particular groups or interests); but it is also in the interest of other countries that can reap the benefits from participating in a large, open trading system. In a sense, an open world market provides external economies, or free benefits, to trading countries. An open trading system requires that the major economies keep their own markets open, even though that may incur adjustment costs and political pain inflicted by special interest groups. Japan, as a major economy, should, therefore, open its own market to contribute to maintaining a worldwide open trading system.

III. CURRENT BACKGROUND ON ACHIEVING OUR OBJECTIVES

Over the past year we have pursued our trade policy objectives with Japan through an intensive dialogue in which we identified many barriers to the Japanese economy. (See the compilation of barriers previously circulated.) In response to our efforts, the GOJ undertook a series of unilateral trade liberalizing measures in November 1981 and January, May, and December 1982.

After the publication of the May package, USTR announced publicly that we were requesting that the GOJ work with the USG for the purpose of initiating a continuing program designed to resolve difficulties that may arise in implementing the package.

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Beginning in August, a sub-group of the U.S.-Japan Trade Subcommittee inaugurated a regular series of visits to Tokyo, capped by a December meeting of the Subcommittee itself, with the following objectives:

- o To clarify the GOJ measures and plans for implementation.
- o To bring to the attention of the appropriate GOJ Ministries and/or the Office of Trade Ombudsman and seek resolution of specific access problems experienced by American businessmen.
- o To sustain momentum toward a more open Japanese economy by addressing issues unresolved or omitted from the package.

Analysis of the various initiatives on the basis of clarifications received by the Subcommittee reveals substantial progress in such areas as customs procedures and easing of access to the insurance market. A number of standards issues appear to be on the track for early resolution. The promised system of business consultants has been set up and is in operation. And the Japan Fair Trade Commission has begun to take a more assertive role, both in beginning its promised monitoring of the distribution of foreign goods, and in proclaiming its opposition to legislation expanding exemptions to Japan's antimonopoly laws, specifically regarding cartels.

These are positive steps, representing tangible improvements. On the whole, however, the trade package was a disappointment. As yet, it has produced no major new opening of the Japanese market, nor completely resolved any major problem. While the Japanese are moving in the right direction, they are not moving far enough, fast enough. These thoughts have been clearly communicated to the GOJ. It is essential that the Japanese make significant new market openings.

From our perspective, a number of major issues are outstanding involving impediments to U.S. access in areas where there is very significant trade potential and where our firms are highly competitive. Some of these sectors have been noteworthy for the development of a coordinated industry-USG approach, tobacco products being the prime example. In other sectors, such as heavy electrical equipment and forest products, such a coordination of approach is still in the early phases of development. There are still others yet to be identified or stimulated to action.

IV. APPROACHES DESIGNED TO MEET U.S. OBJECTIVES

Despite the enormous expenditure of efforts, U.S. trade policy still has yet to achieve a fundamental change in the underlying Japanese attitude toward our relationship. The underlying tone of our dialogue has been at the core confrontational rather than cooperative. The chronic pattern of our trade relationship, with

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the U.S. in the unwanted aggressive role of having to demand, time and again, Japanese market openings, and the Japanese responding with reluctant and partial openings seen as "concessions," has caused an erosion of good will on both sides. In a period of economic stress, it has also helped fuel the fires of protectionism, a protectionism that the Japanese must be shown is a real and present danger to their economic interests.

Achievement of our general trade policy objectives with respect to Japan hinges on our ability to address two difficult and inter-related questions:

1. How to place our bilateral trading relationship on a more cooperative rather than confrontational basis (i.e., Japan increasingly taking the initiative in opening its market rather than reacting to protectionist pressures in the U.S.); and
2. How to rejuvenate and accelerate the Japanese movement toward a more open economy.

The following is a list of possible approaches we can use in addressing the above questions. Some of these are currently being pursued, while others need to be considered for possible use.

o Emphasizing Trade in High Level Political Visits

- High level political visits such as Prime Minister Nakasone's recent visit to Washington and upcoming visits to Tokyo by Secretary Shultz and Ambassador Brock offer invaluable opportunities for the U.S. to demonstrate the great importance we attach to the trade issues, and to exert maximum influence directed toward securing both official Japanese Government commitment at the highest political level to open Japan's markets and substantive measures by the GOJ to implement such commitment. The key Japanese actions needed are:
 - a clear political commitment by Nakasone to open Japanese markets;
 - establishment of a strengthened process that will do so; and
 - real steps now that will make the commitment credible.
- Central emphasis should be placed on the vital importance of Japan's taking immediate and ongoing action to open its market in order to reduce the dangerously high level of current friction that threatens to damage the overall bilateral relationship.

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- o Existing Sector Committees - Bilateral USG-GOJ committees/work groups, etc., on petrochemicals, high technology, forest products, manufactured tobacco products, and beef and citrus provide fora for addressing issues in those sectors. Maximum use should be made of these groups to open these sectors.
- o Other Sectors - The bilateral groups discussed above cover a number of sectors, but not all. To be certain we are not ignoring critical sectors, the TPSC Subcommittee on Japan will identify those sectors in which the U.S. has significant trade potential and develop strategies for pursuing our interests. We have already begun to work with the soda ash industry and the trade associations in heavy electrical machinery, wood and wood products, and paper and paper products, to develop specific sectoral strategies. This effort should be intensified and guided by the Subcommittee's identification of sectors with major export potential.
- o GATT Issues - The approaches outlined above envision as a first step an intensive dialogue with the Japanese with the objective of reaching a mutually satisfactory solution. In those cases where the dialogue fails to result in a solution within a reasonable time, we should avail ourselves of the dispute settlement procedures under the GATT or the appropriate code, as we have now done, for example, in the case of the leather quotas. We should pursue our rights vigorously.
- o Non-GATT Issues - There are impediments to the Japanese economy which are not violations of Japan's GATT obligations. These include such issues as business practices and attitudes. To get at these problems, the TPSC Subcommittee on Japan will develop a coordinated program of U.S.-Japan bilateral discussions (both government-to-government and private sector-to private sector). In addition, through Congressional testimony, publications and articles, speeches, etc., we will attempt to bring public pressure to bear on Japanese business practices and attitudes we have identified as impediments to increased market access.

V. HOW TO PROCEED

The preceding list of approaches is illustrative. Other approaches need to be developed. The approaches need to be related to the objectives presented in Part I, which themselves need to be elaborated more thoroughly. Priorities need to be set. Existing tactical tools need to be examined and new ones need to be developed and explored. In sum, we need to develop a comprehensive strategy by which we will pursue our objectives.

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To develop this strategy, a TPRG Japan Task Force will be formed. Chaired by USTR, the task force will have a steering committee comprised of Deputy Assistant Secretary-level representatives from State, Treasury, Commerce, and Agriculture. As appropriate, the task force will include representatives from the Departments of Labor, Defense, Energy, Transportation, and Interior, the CEA, OMB, NSC, GAO, FDA, CIA, EXIM Bank, the President's Science Advisor, and others as needed.

The task force will be charged with developing a long-term strategy covering the next several years. As part of this plan, the task force will also develop a short-term strategy to address the immediate problems which confront the U.S.-Japan trade relationship.

The long time frame has two purposes. First, it avoids giving the false impression that there are simple, overnight solutions to U.S.-Japan trade problems. Second, it lends itself to the creation of a process for addressing the problems. A process rather than an episodic approach is more likely to be successful in the long run.

In developing a comprehensive strategy, the task force will address three other issues. First, in setting priorities, the task force will assure that in reacting to private sector initiatives the USG does not neglect our major trade interests. Petitions received pursuant to the various statutes must, of course, be handled appropriately. We must avoid, however, becoming purely reactive. In defining our major trade interests and developing a comprehensive strategy we should be able to integrate the handling of petitions received with the pursuit of our major interests.

Second, the task force must address the immediate threat posed by the rapidly shifting mood of the country and the Congress with respect to Japan. The rapid growth in anti-Japanese sentiment threatens the Administration with the loss of initiative. In developing the short-term strategy, the task force will keep in mind the need for the Administration to maintain leadership in trade policy in part to minimize protectionist pressures.

Third, as Japanese industrial policy, including industry targeting, is increasingly viewed as a fundamental cause of trade friction between our two countries, the task force will examine this issue in detail and develop appropriate recommendations.

As the task force completes discrete portions of the comprehensive strategy, they will be submitted to the TPRG and the TPC for consideration and approval.

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1-26-83
James M. Murphy

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THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON
20506

January 26, 1983

MEMORANDUM

TO: TRADE POLICY COMMITTEE

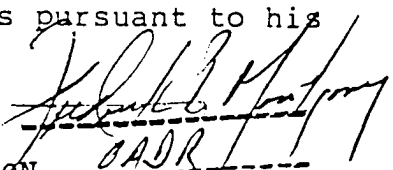
FROM: WILLIAM E. BROCK

SUBJECT: Recommendation on Action Regarding Houdaille Petition

This memo is in further reference to the question of what recommendation we should make to the President on the Houdaille case. On January 11, 1983 I sent the Trade Policy Committee a memorandum summarizing the issues raised by the petition filed by Houdaille Industries and setting forth options for a recommendation to the President. In that memo I noted that previously USTR had circulated, at the sub-cabinet level, an 80-page analysis of factual and legal issues raised by the Houdaille petition. At that meeting several factual questions were raised which will be addressed in a separate background document to be circulated later this week. During our last meeting on this subject we limited our discussion to the problems facing the U.S. industry; we did not discuss the specific options proposed in the January 11 memo.

During previous discussions of the Houdaille issue both at the cabinet and sub-cabinet level a consensus appeared to emerge that domestic producers of numerically controlled (NC) machining centers and punching machines are experiencing severe market disruption as a result of increased Japanese imports. Further, there seemed to be agreement that we face a long-term problem of alleviating the harm to the domestic NC machine tool industry arising from those imports as well as a short-term problem of preventing the significant inventories of NC punching machines and machining centers currently in warehouse from entering U.S. commerce pending action to remedy the long-term problem. In addition it was noted that Japan's target industry policies affect a broad range of U.S. interests and that action in the Houdaille case would provide negotiating leverage for dealing with the broader issue of Japan's target industry policy.

In light of the discussion below describing the Japanese practices relating to the machine tool industry and the standard for action under Sec. 301 I propose that we recommend to the President that he take the following three actions pursuant to his

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authority under Sec. 301 of the 1974 Trade Act to deal with the problems noted above:

1. Direct that liquidation of entries of NC punching machines and NC machining centers imported from Japan be suspended immediately;
2. Direct USTR to negotiate an agreement with the GOJ calling for a restriction on imports of NC punching machines and machining centers; and
3. Direct USTR to initiate consultations with the GOJ with respect to the trade related aspects of Japan's target industry policy as it affects U.S. trade interests generally.

Sec. 301 authorizes the President to take all appropriate and feasible action (including the imposition of restrictions on imports) in response to any act, policy or practice of a foreign government which he determines is unjustifiable, unreasonable or discriminatory and a burden or restriction on U.S. commerce.

In the Houdaille case, extensive investigations have disclosed the existence of a Japanese government policy to target the machine tool industry for rapid development as a supplier both to the domestic Japanese market as well as the world export market. This policy has been in existence for more than 25 years and has been implemented not through a single act but through a multiplicity of practices which themselves have evolved over time. These practices have included protection of the Japanese machine tool industry from import competition until the Japanese industry is in such a secure position that imports are unable to obtain more than a nominal share of the market. In addition, the GOJ has enacted a series of Extraordinary Measures Laws (the most recent of which remains in effect today) whereby the Japanese producers have been encouraged to engage in anticompetitive behavior including industry concentration, product specialization and joint production planning. Furthermore, the GOJ has provided the machine tool industry with substantial monetary assistance in the form of special tax concessions, preferential loans and direct and indirect monetary grants out of the funds generated through government-sponsored wagering on bicycle and motorcycle races. Together these practices have reduced the risks normally associated with commercial activities in an open market to a minimum. Japan's target industry policy remains in effect today: machine tools continue to be designated under the existing Extraordinary Measures Law; the machine tool industry continues to benefit from government monetary assistance.

The effects of this policy in the U.S. market are clear. In 1976, Japanese exports accounted for 3.7% of the U.S. market for NC machining centers and 4.7% for NC punching machines. In 1982,

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these import penetration figures had risen to approximately 60% and 46% respectively. Until recent months imports continued to rise despite a drop in domestic consumption. A survey of the larger U.S. producers of NC machining centers reveals that capacity utilization was down to approximately 38% in November. Moreover, the Japanese importers have sufficient NC machining centers on hand to supply up to 80% of 1983 demand. Our industry, on the other hand generally lags in a recovery. Thus, the Japanese will have a significant edge in taking advantage of the recovery in the U.S. economy.

In light of the above, I believe that the Japanese policy meets the standards of Sec. 301 of the 1974 Trade Act. It is an unreasonable policy in that it calls for a degree of government assistance, monetary and otherwise, incompatible with the operation of an open market system which results in a nullification and impairment of U.S. benefits under the GATT. Furthermore, there can be no doubt that the policy burdens U.S. commerce. Japan has obtained unacceptably large shares of the U.S. market and stands ready to take greater shares as the economy recovers from the recession.